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SUBJECT: TNI REFORM: MEETING THE TARGET ON TRANSFER OF
BUSINESSES

Classified By: Acting Pol/C Stanley Harsha, reasons 1.4 (b,d).

¶1. (SBU) SUMMARY: The Indonesian government has announced plans to create a "national team" to transfer ownership of military businesses to the government by 2009. The move, which fulfills a 2004 legislative mandate and has been long awaited, is somewhat anticlimactic in that only six to twelve of the 1,500 commercial units with ties to the TNI will be affected. All others are either too small or constitute cooperatives and foundations, which are exempt. While this is a welcome step toward a professional military compatible with democracy, rectifying the shortfall in state budgetary support remains central to the success of reform. END SUMMARY.

¶2. (U) TEAM TO COMPLETE TRANSFER BY 2009: Indonesian Minister of Defense, Juwono Sudarsono, announced on January 7 that a National Team for the Transformation of TNI Businesses would be formed to finalize the transfer of TNI businesses out of the TNI. The regulation formally creating the team was reportedly on President Yudhoyono's desk awaiting signature. According to Sudarsono, the decision was approved in late 2007 by the Coordinating Minister for Political, Legal and Security Affairs. The composition of the team is not yet known, but Defense Department Secretary General LTG Sjafrie Sjamsoeddin said the Transformation Team would be headed by Erry Riyana Hardjapamekas, the credible, reform-minded former deputy director of the Anti-Corruption Commission (KPK). The team will be tasked with auditing and either selling or liquidating TNI businesses by 2009.

¶3. (SBU) 2004 LAW MANDATES REFORM: Commercial TNI activities, which in the Suharto era included a wide range of activities, including productive state enterprises, are a legacy of an authoritarian past in which lines of private and public ownership were blurred and the military was perennially underfunded. Many of these have since ceased, although informal business activities, such as leasing of land and facilities and provision of security services for multinational companies, continue. (These legitimate businesses are distinct from illegal activities, such as resource extraction, toll collection, protection, smuggling, gambling and so forth, in which military elements have engaged in the past and may to some extent still do so today.) The country has since rejected these practices as

incompatible with a professional military. Law No. 34/2004, passed in September 2004, banned military commercial activities and mandated that the government assume ownership of "all business activities owned and operated by the military, both directly and indirectly," within five years.

¶4. (SBU) ONLY A HANDFUL UP FOR SALE: Critical observers consider the step to be long overdue. A previous team, the TNI Business Supervision and Transformation Team, was created in November 2005 to compile a list of formal TNI businesses and by mid-2006 had reported the results to the DPR. Since that time the list has been with President Yudhoyono. They also see the step as rather anti-climactic. In June 2007, the government announced that only six to twelve businesses out of 1,520 previously identified met the criteria of a business and therefore should be transferred. TNI businesses were defined as those with assets of over 20 billion rupiah (\$2.1 million). This left 324 smaller enterprises, 1,071 non-profit cooperatives and 25 foundations, whose function was largely to serve the daily needs of soldiers and their families.

¶5. (C) WHY NOT MORE? There are several reasons why the number slated for transfer is not higher. Today, none of the 300-plus formal enterprises is formally under the ownership of the Department of Defense, the TNI or a military command. Rather, most of them belong to foundations, a sector of the economy which lacks adequate legislation and therefore remains poorly regulated. Smaller enterprises, on the other hand, are operated by various units to supplement the salaries of their members. Embassy contacts who have studied the issue say that few of the TNI-related businesses in either of these two groups are financially healthy. The

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issue is therefore not that huge profits are being made on the side, but rather that soldiers are distracted from their professional duties.

¶6. (C) WHEN REAL REFORM WILL COME: Although it comes later than expected, the formation of this National Team keeps the Yudhoyono administration on course to complete the mandatory transfer of TNI enterprises by the 2009 deadline. At the same time, the high threshold of (20 billion rupiah) will fulfill the letter of the law while allowing much commercial activity to continue. Real progress, fulfilling the spirit of the reform legislation, will come only with adequate budgetary funding for salaries and better regulation of related areas, notably foundations.

HUME